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BEEF SECTOR MUST PASS-ON HIGHER FEED COSTS

Beef producers seem to understand that they will have to reduce the number of females in the herd in order to reduce beef production by 2009 and thereby pass higher feed costs to beef consumers. That process appears to be started, but will take some time.

For now, there are more cattle in feedlots than had been expected. On April 1, the USDA estimated there were 11.6 million head of cattle in feedlots with 1,000 head or greater capacity. This is the second highest April total on record. Placements into feedlots during March were up by seven percent. The large placements appear to be related to the low number of smaller calves put into feedlots last fall and winter. Those calves have now grown and are entering feedlots at heavier weights. As an example, from November 2006 through February 2007 placements of calves weighing less than 600 pounds were down 21 percent as corn prices were booming. The data for March show that placements of calves weighing over 700 pounds were up 11 percent. In addition, lower corn prices may have helped stimulate March placements. May corn futures, for example, dropped \$.61 per bushel in March, although \$.20 came on the last day of the month. Of equal importance was the strength of live cattle futures. August futures were as low as \$88 in early February, but rallied to highs above \$95 in March.

There are strong indications that the nation's breeding herd is being reduced. One indication is the high rate of cow slaughter. In the last quarter of 2006 and the first quarter of 2007, cow slaughter was 14 percent higher than in the same six month period a year earlier. In addition, the current number of heifers in feedlots headed for slaughter remains nearly four percent higher. High cow and heifer slaughter are strong indications that the mid-year *Cattle* inventory report to be released on July 20 will show a smaller breeding herd.

Where have prices been and where are they headed? For the first quarter of 2007, Nebraska finished steers averaged \$90.70 per hundred, which was \$1.50 higher than the price in the same quarter in 2006. This was an impressive showing given that beef production was up over two percent for the quarter. The number of head coming to market

was up four percent, but average weights were nearly two percent lower because of high feed prices.

Calf and feeder cattle prices bore the brunt of high feed prices in the first quarter. Steer calf prices, as measured by Oklahoma City 500-550 pound steers, were \$10.30 per hundredweight lower, a drop of eight percent from year-previous levels. Feeder steer prices were down \$6.50, or six percent. The picture was even more dismal for the prices of heifer calves, which were down \$16.85 per hundred, or 13 percent. The negative impact of higher feed prices on the cow-calf sector was an estimated \$1.2 billion in the six months from October 2006 through March 2007. This puts the industry on-track to have in excess of a \$2 billion annual negative impact from higher feed prices.

After reaching highs at \$100 per hundred in early April, finished cattle prices are expected to move into the low-to-mid \$90s for the spring quarter. Summer prices are expected to be a few dollars lower and average in the very high \$80's to low-\$90s. Fall prices are expected to average near the mid-\$90s.

Feeder cattle and calf prices may face the greater uncertainty given the potential volatility of the corn market. Steer calf prices are expected to trade in the \$115 to \$125 range this summer, and then \$110 to \$120 this fall. If the large corn acreage does get planted this year, and with normal or better weather, those calf prices could easily be \$5 to \$10 higher by the fall.

Maybe more importantly for the cattle industry is the prospect for a smaller cow herd being reported in the July 20 *Cattle* inventory update. The way for the brood cow sector to recover from high feed prices is to reduce the size of the cow herd thereby reducing the level of beef production by 2009. In this manner, higher feed costs will eventually be passed to beef consumers.

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